

**SALES AND USE TAX REVIEW COMMISSION  
RECOMMENDATION PURSUANT TO P.L. 1999, C. 416**

**BILL NUMBER:**  
S-704

**DATE OF INTRODUCTION:**  
January 15, 2002

**SPONSOR:**  
Senator Lance

**DATE OF RECOMMENDATION:**  
March 26, 2002

**IDENTICAL BILL:**

**COMMITTEE:**  
Senate Budget and Appropriations

**DESCRIPTION:**  
The Bill provides for a sales tax exemption for rental transactions between closely related business entities.

**ANALYSIS:**  
The Bill provides that receipts from the rental of tangible personal property between related persons not engaged in the business of renting such property are exempt from sales and use tax. This exemption will cure the inequity that occurs in the situation where Company A buys equipment for its own use, pays tax, then charges a related entity, Company B, for the rental of the equipment. This inter-company transaction is characterized as a "rental" on the company's books only for accounting purposes and tax is due even though the transfer is amongst itself.

This exemption will promote horizontal equity because similar legislation already exists for the interchange of trucks between closely related business entities. Horizontal equity mandates that sales tax legislation be broadly based and taxes similar transactions, persons or things in a similar manner.

The impact of this Bill is believed to be low (less than \$100,000 annually) because the specific criteria that must be satisfied in order to qualify for the sales tax exemption is very limited so it does not impact a lot of taxpayers. The Bill defines "related persons" as those that are 80% or more owned by each other or are 80% or more owned by the same third parties.

**RECOMMENDATION:**  
The Commission recommends enactment of this Bill.

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**COMMISSION MEMBERS FOR PROPOSAL: 5**

**COMMISSION MEMBERS AGAINST PROPOSAL: 1**

**COMMISSION MEMBERS ABSTAINING: 0**

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